

PINNACLE PETROLEUMS LTD.

(Incorporated Under the Laws of the Province
of Alberta, Canada)

CALGARY, ALBERTA, CANADA

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

To: The Shareholders
of Pinnacle Petroleums Ltd.

NOTICE is hereby given that an Annual and Special General Meeting of Shareholders of Pinnacle Petroleums Ltd. (hereinafter called "the Company") will be held in the Rideau Room of the Calgary Inn, in the City of Calgary, Province of Alberta, on Wednesday, the 4th day of September, 1974, at 10:30 a.m. (Calgary time) for the following purposes:

1. To receive and consider the Report of the Directors, the financial statements of the Company to March 31, 1974, and the auditors' report thereon.
2. To elect directors of the Company for the ensuing year and until their successors shall be duly appointed or elected and qualified.
3. To appoint auditors for the ensuing year.
4. To consider and vote upon the following resolution as a Special Resolution of the Company:

"RESOLVED as a special resolution of the Company that the paid up capital of the Company in the amount of \$5,774,799 be reduced to \$1,827,920 without repayment of capital by applying \$3,946,879 of the paid up capital in elimination of the deficit of the Company in the amount of \$3,946,879 as set forth in the audited balance sheet of the Company as at March 31, 1974."

5. To consider the amalgamation agreement between the Company and Paloma Petroleum Ltd. dated the 26 day of July, 1974, and to consider and vote upon the following resolution as a resolution of the Company:

"RESOLVED that the Company amalgamate with Paloma Petroleum Ltd. in accordance with the terms and conditions of the amalgamation agreement between the Company and Paloma Petroleum Ltd. dated the 26 day of July, 1974."

6. To transact such other business as may properly come before the meeting or any adjournment thereof.

The share transfer books of the Company will not be closed but, in lieu thereof, the Board of Directors has fixed the close of business on the 13th day of August, 1974, as the record date for the determination of shareholders who are entitled to notice of and to vote either in person or by proxy at the Annual and Special General Meeting or at any adjournment or adjournments thereof.

Shareholders who do not expect to attend the Meeting in person are urged to fill in, sign, date and return the enclosed Proxy in the enclosed envelope. The Proxy must be deposited at the office of the Montreal Trust Company at 411 - 8th Avenue S.W., Calgary, Alberta, before September 4, 1974.

DATED at Calgary, Alberta, Canada, this thirteenth day of August, 1974.

BY ORDER OF THE BOARD OF DIRECTORS

Secretary

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PINNACLE PETROLEUMS LTD.

INFORMATION CIRCULAR

MAR 6 1975

This Information Circular is furnished in connection with the solicitation of proxies by the management of PINNACLE PETROLEUMS LTD. ("Pinnacle") for use at the Annual and Special General Meeting of the Shareholders of Pinnacle to be held on September 4, 1974, at the hour of 10:30 o'clock in the forenoon (Calgary time) at the Rideau Room of the Calgary Inn, in the City of Calgary, in the Province of Alberta, for the purposes set forth in the foregoing Notice of Annual and Special General Meeting. It is expected that the solicitation of proxies will be primarily by mail. Proxies may also be solicited personally by directors, officers and employees of Pinnacle. The cost of solicitation will be borne by Pinnacle.

GENERAL

Principal Holders of Pinnacle Shares

Paloma Petroleum Ltd. ("Paloma") is the only person who, to the knowledge of the directors or senior officers of Pinnacle, beneficially owns directly or indirectly, more than 10% of the shares of Pinnacle. As at the date hereof Paloma beneficially owns directly 1,948,222 shares, being 36.2% of the outstanding shares of Pinnacle.

R. J. Gowdy owns directly 51% of the outstanding shares of Paloma. The remaining 49% of such outstanding shares are owned directly by Mrs. C. M. Gowdy, his wife.

Voting of Shares

The directors of Pinnacle have fixed August 13, 1974 as the record date for the determination of the Shareholders entitled to receive notice of and to attend and vote at the meeting. Those Shareholders desiring to be represented thereat by proxy must deposit their forms of proxy with Montreal Trust Company, 411 - 8th Avenue S.W., Calgary, Alberta prior to September 4, 1974. Each shareholder is entitled to one vote for each share held by him. As at August 13, 1974 there were 5,380,895 shares without nominal or par value of Pinnacle outstanding.

Election of Directors

At this Annual and Special General Meeting, four directors are to be elected, each director to hold office until the Annual General Meeting of Shareholders of the Company in 1975 or until his successor has been duly elected or appointed. It is intended that votes will be cast pursuant to the proxies for the election of the following nominees as directors, all of whom are presently directors of the Company except for William H. Molle. William Gordon Brown and C. Alan Smith have been directors since May 1974 and Mr. Robert J. Gowdy has been a director since June 1974. Mr. Molle previously served as a director and as President of the Company from September 1970 to May 1974.

<u>Name and Address</u>	<u>Position Presently Held</u>	<u>Principal Occupation During Past Five Years</u>	<u>Number of Common Shares Beneficially Owned as of August 13, 1974</u>
Robert J. Gowdy 4427 Britannia Drive, S.W. Calgary, Alberta	Director	President of Paloma Petroleum Ltd.	*1,948,222
W. Gordon Brown 3018 - 10 Street S.W. Calgary, Alberta	Director	Partner, Messrs. Jones, Black, Gain & Laycraft, Barristers and Solicitors, Calgary, Alberta	Nil
C. Alan Smith 1137 Varsity Estates Rise N.W. Calgary, Alberta	President and Director	President of Lendale Holdings Ltd. since May of 1973; from November 1972 to May 1973, Chartered Accountant with Peat, Marwick,	50,000

Mitchell & Co., Calgary, Alberta;
from August 1969 to November, 1972,
Chief Accountant with Bow
Helicopters Ltd.

William H. Molle
36 Ranchdale Crescent
Don Mills, Ontario

President of First Empire Financial
Services Limited; previously
President of Greyhound Leasing
and Financial of Canada Limited
from May, 1970, to December, 1973;
prior to May, 1970, Vice-President
of Greyhound Leasing and Financial
of Canada Limited

5,255

*These shares are deemed to be beneficially owned by Mr. Gowdy by virtue of his ownership of 51% of the outstanding shares of Paloma Petroleum Ltd. which company owns 1,948,222 shares of Pinnacle.

Remuneration of Officers and Directors

The aggregate remuneration paid to all directors and senior officers of Pinnacle, as a group, during Pinnacle's last completed financial year by Pinnacle and its subsidiaries whose financial statements are consolidated with those of Pinnacle was \$84,234.

Employee Stock Option

A former employee of Pinnacle has an option to purchase up to 25,000 shares of Pinnacle at a price of \$.67 per share on or before April 6, 1976. This option was granted to him on April 7, 1972 while he was an officer and director of Pinnacle.

Interest of Management and Others in Matters to Be Acted Upon

The Annual and Special General Meeting of Pinnacle has been called for the purpose, among others, of approving the amalgamation of Pinnacle and Paloma. Robert J. Gowdy, a director of Pinnacle, is the President, a director and controlling shareholder of Paloma.

Appointment of Auditors

The Shareholders will be asked to vote for the appointment of Peat, Marwick, Mitchell & Co., Chartered Accountants, Calgary, Alberta, as auditors of Pinnacle for the current fiscal year and to authorize the directors to fix their remuneration.

REDUCTION OF CAPITAL

This meeting has been called as an Annual and Special General Meeting of the shareholders for the purpose, among others, of approving the reduction in paid-up capital of Pinnacle by applying \$3,946,879 of the paid-up capital in elimination of the historical deficit of Pinnacle as shown in the balance sheet as at March 31, 1974 forming part of the audited financial statements for the fiscal year then ended.

Management of Pinnacle is of the opinion that it is in the best interests of Pinnacle and its shareholders to eliminate this deficit which has arisen during periods prior to the reorganization of Pinnacle's business by present management. Accordingly your directors recommend that you vote in favor of the proposed reduction of the paid-up capital.

PROPOSED AMALGAMATION

The Annual and Special General Meeting of shareholders of Pinnacle has also been called for the purpose of approving the proposed amalgamation of Pinnacle and Paloma upon the basis set out below. Paloma is an oil and gas exploration and development company carrying on business primarily in the provinces of Alberta and Saskatchewan. A report prepared by D & S Petroleum Consultants Ltd. ("D & S") of 732, 550 - 6 Avenue S.W., Calgary, Alberta, showed that as at April 1, 1974, Paloma owned net proven reserves of over 47 billion cubic feet of natural gas and net proven and probable additional reserves of over 151,000 barrels of crude oil. Reference is made to the heading "PALOMA PETROLEUM LTD." appearing on page 9 hereof for further information concerning the business and properties of Paloma.

The Amalgamation Agreement

Pursuant to the provisions of an agreement in writing dated as of July 26, 1974, (the "Amalgamation Agreement") Pinnacle and Paloma have agreed, subject to the obtaining of the approvals referred to below, to amalgamate into one company under the name of "Paloma Petroleum Ltd." (the "Amalgamated Company") in accordance with the provisions of section 156 of The Companies Act (Alberta). A copy of the Amalgamation Agreement, except for the proposed Articles of Association, is attached to this Information Circular. The proposed Articles of Association may be examined at the office of Pinnacle during normal business hours. Upon request, a copy of the proposed Articles of Association will be mailed to a shareholder.

On July 26, 1974 the Amalgamation Agreement was unanimously approved by the shareholders of Paloma.

If the Amalgamation Agreement is approved by not less than 75% of the votes cast at the Annual and Special General Meeting of the Shareholders of Pinnacle, then a copy of the Amalgamation Agreement will be submitted to the Registrar of Companies for the Province of Alberta for his approval. Following such approval application will be made to a Justice of the Supreme Court of Alberta for an order approving the amalgamation of the two companies, all as required by Section 156 of The Companies Act (Alberta).

Recommendations of Directors

The board of directors of Pinnacle believes that the combining of resources of Pinnacle and Paloma into the Amalgamated Company will result in a company better equipped to exploit such resources than either company could have done independently. Administrative facilities will be centralized and will therefore result in increased efficiency and cost saving. The assets of Pinnacle consist predominately of proven and producing crude oil reserves, while the assets of Paloma consist predominately of proven and producing natural gas reserves. The Amalgamated Company will therefore have a broader diversified production base.

The Pinnacle reserves are presently producing at their peak of productivity which in the near future will begin a gradual decline. On the other hand, the Paloma reserves are comparatively recent discoveries and are relatively much larger than the reserves owned by Pinnacle. Management anticipates that Pinnacle shareholders will benefit from the amalgamation in view of the longer productive life of the reserves of the Amalgamated Company and because combined operations will generate a larger volume of funds available for continued exploration.

The First Directors of the Amalgamated Company

The first directors of the Amalgamated Company are designated by paragraph 4 of the Amalgamation Agreement. The name, address and principal occupation of each of the first directors, the year in which he first became a director of Pinnacle or Paloma (as the case may be), the number of shares beneficially owned directly or indirectly by him as at the date hereof converted into shares of the Amalgamated Company, and his proposed position or office with the Amalgamated Company is as follows:

Name and Address	Proposed Position with Amalgamated Company	Year First Became Director		Present Principal Occupation	Number of Shares of Amalgamated Company Held
		Pinnacle	Paloma		
Robert J. Gowdy 4427 Britannia Dr. S.W. Calgary, Alberta	President and Director	1974	1967	President, Paloma Petroleum Ltd.	1,841,607
W. Gordon Brown 3018 - 10th Street S.W. Calgary, Alberta	Secretary and Director	1974	—	Partner, Messrs. Jones, Black, Gain & Laycraft, Barristers and Solicitors, Calgary, Alberta	nil
William H. Molle 36 Ranchdale Crescent Don Mills, Ontario	Director	Director of Pinnacle from September, 1970, to May, 1974		President, First Empire Financial Services Limited	808
C. Alan Smith 1137 Varsity Estates Rise N.W. Calgary, Alberta	Vice-President, Treasurer and Director	1974	—	President, Lendale Holdings Ltd.	7,692

The principal occupations for the previous five years for Messrs. Robert J. Gowdy, W. Gordon Brown, William H. Molle and C. Alan Smith are set out under the heading "Election of Directors" on page 1 hereof.

The term of office of each such person will be until the first Annual General Meeting of the Amalgamated Company or until his successor is elected or appointed.

The remuneration to be paid to the directors and senior officers of the Amalgamated Company may not necessarily be the same as that paid by Pinnacle or Paloma (as the case may be) to their directors and senior officers immediately prior to the amalgamation taking effect. Subject to such possible adjustment in remuneration, the directors and senior officers of Paloma and Pinnacle will not receive any payment or other benefit by way of compensation in consideration of their loss of office or of their becoming a director or senior officer of the Amalgamated Company.

Capitalization of the Amalgamated Company

The Amalgamated Company will be authorized to issue 7,000,000 shares without nominal or par value which may be issued for a maximum price or consideration not exceeding \$10,000,000. Following the conversion of the outstanding shares of Pinnacle and of Paloma into shares of the Amalgamated Company on the basis set out below, the issued and outstanding capital of the Amalgamated Company will consist of 4,139,149 shares without nominal or par value.

The option held by a former employee of Pinnacle described under the heading "Employee Stock Option" on page 2 hereof, will be converted to an option to purchase 3,846 shares of the Amalgamated Company exercisable as to four-fifths thereof at any time on or before April 6, 1976 and as to a further one-fifth thereof after April 6, 1975 and before April 6, 1976, for a purchase price of \$4.35 per share. The Amalgamated Company will reserve 3,846 shares for issuance upon exercise of this option.

Basis for Share Conversions

In order to establish a fair basis for the conversion of outstanding shares of Pinnacle and Paloma into shares of the Amalgamated Company, management requested D & S to evaluate the resource properties of each company and to base each of their evaluations on the same parameters. The net book value of each company was then adjusted to take into account the present worth of the resource properties as calculated by D & S.

A comparison of the adjusted net book values determined in this manner, shows that 20% of the net assets of the Amalgamated Company will have been contributed by Pinnacle and the remaining 80% by Paloma. Accordingly, the distribution of shares of the Amalgamated Company to the former Shareholders of Pinnacle and Paloma is based on this ratio.

In determining the number of shares of the Amalgamated Company to be outstanding following the amalgamation, management considered it to be in the best interests of the company to consolidate the existing Pinnacle shares on a 6.5 for 1 basis in converting the outstanding Pinnacle shares into shares of the Amalgamated Company. As a consequence, management anticipates an increase in the price at which shares of the Amalgamated Company will be traded thereby increasing their marketability.

The effect of the foregoing after taking into account the ownership by Paloma of 36.2% of the outstanding shares of Pinnacle prior to the amalgamation, will be that shares of the Amalgamated Company will be distributed as follows:

	<u>Number of Shares Owned in the Amalgamated Company</u>	<u>Percentage of Outstanding Shares</u>
Former shareholders of Pinnacle other than Paloma	528,155	12.8%
Former shareholders of Paloma	<u>3,610,994</u>	<u>87.2%</u>
	<u>4,139,149</u>	<u>100.0%</u>

In the opinion of the directors of Pinnacle the basis of conversion is fair and reasonable.

Fractional Shares

To the extent that conversion of Pinnacle shares into shares of the Amalgamated Company results in a shareholder of Pinnacle being entitled to a fractional interest in a share of the Amalgamated Company, the Amalgamated Company shall in lieu of issuing a fractional certificate pay to each such shareholder for every ten-sixty fifths of a share to which he would otherwise be entitled, a sum of cash equal to the average closing sale price per share of Pinnacle shares on The Toronto Stock Exchange during the five trading sessions immediately preceding the effective date of the amalgamation.

Principal Shareholders of Amalgamated Company

To the knowledge of the directors of Pinnacle, the following are the only persons who will own, of record or beneficially, directly or indirectly, more than 10% of the outstanding shares of the Amalgamated Company following the amalgamation:

<u>Name and Address</u>	<u>Type of Ownership</u>	<u>Number of Shares</u>	<u>Percentage of Outstanding Shares</u>
Robert J. Gowdy 4427 Britannia Dr. S.W. Calgary, Alberta	record and beneficial	1,841,607	44.5%
Carole M. Gowdy 4427 Britannia Dr. S.W. Calgary, Alberta	record and beneficial	1,769,387	42.7%

Auditors, Registrar and Transfer Agent

It is proposed that the first auditors of the Amalgamated Company will be the firm of Peat, Marwick, Mitchell & Co., Chartered Accountants, Calgary, Alberta, the present auditors of both Paloma and Pinnacle.

It is also proposed that the Registrar and Transfer Agent for the Amalgamated Company will be Montreal Trust Company at its principal offices in the cities of Vancouver, Calgary, Toronto and Montreal.

Stock Exchange Listing

Upon the completion of the amalgamation of Pinnacle and Paloma, the shares in the capital of Pinnacle will be delisted from trading on The Toronto Stock Exchange. Application will be made to The Toronto Stock Exchange to list the shares of the Amalgamated Company. Acceptance of this application will be subject to meeting the requirements of the Exchange. Management understands that such listing, if approved, will occur contemporaneously with the delisting of the Pinnacle shares.

Exchange of Share Certificates

As soon as the amalgamation of Paloma and Pinnacle becomes effective, Montreal Trust Company will send to each shareholder of record of Pinnacle a letter of transmittal and a request for such shareholder to surrender his share certificate(s) in return for a certificate or certificates for the appropriate number of shares in the capital of the Amalgamated Company.

Rights of Dissentient Shareholders

Section 156 of The Companies Act (Alberta) provides that unless the Supreme Court of Alberta otherwise directs, each amalgamating company shall notify each of its dissentient shareholders, in such manner as that Court may direct of the time and place when the application for the order approving the amalgamation will be made. Upon the application the Court shall hear and determine the matter and may approve the Amalgamation Agreement as presented or may approve it subject to compliance with such terms and conditions as it thinks fit, having regard to the rights and interests of all parties including dissentient shareholders.

Tax Position of the Amalgamated Company

The Amalgamated Company will be treated for tax purposes as a new company with its first taxation year commencing on the effective date of the amalgamation. The taxation years of each of Pinnacle and Paloma will be deemed to have ended immediately prior to the amalgamation.

The tax position of each of Pinnacle and Paloma will, in most respects, be preserved in the Amalgamated Company.

Tax Position of Canadian Shareholders

Under present Canadian income tax law, upon the amalgamation becoming effective, a shareholder of Pinnacle will be deemed to have disposed of his shares in Pinnacle and to have received therefor an amount equal to the fair market value of the shares of the Amalgamated Company which he is entitled to receive. The fair market value will be calculated as of the date of the amalgamation. Generally speaking a shareholder will have realized a taxable capital gain in respect of his shares of Pinnacle where the amount he is deemed to have received exceeds his adjusted cost base, as defined under the Income Tax Act, of his Pinnacle shares. The taxable capital gain will be equal to one-half of such excess and the amount of such taxable capital gain must be included in the income of such shareholder for Canadian income tax purposes. For those shareholders of Pinnacle who employ the Valuation Day value of the shares of Pinnacle in computing the adjusted cost base of their shares, the Valuation Day value of the shares of Pinnacle was \$.44 per share.

On May 6, 1974 the Minister of Finance presented to the House of Commons of the Parliament of Canada, the 1974 Federal Budget which, among other things, proposed certain changes to the Income Tax Act which would have resulted in the amalgamation being a tax free transaction to all of the Canadian shareholders of Pinnacle. The budget resolution was defeated and the budget did not become effective. It is not known whether the above changes will be reintroduced by the new government.

It is recommended that Pinnacle shareholders consult their own income tax advisors.

PINNACLE PETROLEUMS LTD.

Pinnacle Petroleum Ltd., its wholly owned subsidiaries, Baldonnell Oil & Gas Ltd., Grizzly Petroleum Limited and Grizzly Exploration (UK) Ltd. and Grenville Exploration Limited, a 60% owned subsidiary, are engaged in oil and gas and mineral exploration and production in Canada. Unless the context otherwise requires, as used in this section, the term "Pinnacle" will include all such subsidiaries.

Reserves of Pinnacle

Pinnacle has proven reserves of crude oil in various fields in Alberta and Saskatchewan and proven reserves of natural gas in several fields in Alberta. A report prepared by D & S Petroleum Consultants Ltd. ("D & S") of 732, 550 - 6 Avenue S.W., Calgary, Alberta shows as of April 1, 1974, the following net reserves of Pinnacle (after royalty deductions and adjustments for the interests of others) and their estimated present net worth discounted at the rate of 9% and 12%.

	Net Reserves			Estimated Present Net Worth	
	Proven	Probable Additional	Total	At Discount Rate of 9%	At Discount Rate of 12%
Crude Oil (Bbls)					
Province of Alberta	617,548	199,955	817,503	\$2,331,345	\$1,995,529
Province of Saskatchewan	238,885	83,782	322,667	328,780	294,994
	856,433	283,737	1,140,170	2,660,125	2,290,523
Natural Gas (MMCF)					
Province of Alberta	2,089	—	2,089	569,400	437,114
				\$3,229,525	\$2,727,637

The above estimated present net worth has been calculated after provision for estimated future capital expenditures.

Proven reserves are the estimated economically recoverable quantities of oil or natural gas, including the reserves to be obtained by enhanced recovery processes demonstrated to be favourable, delineated by gas-oil or gas-water contacts in drilled wells, or which can be reasonably evaluated as economically productive on the basis of drilling, geological, geophysical and engineering data, but do not include reserves in undrilled prospects. Probable additional reserves are considered to be those additional reserves which may be recovered from the portion of the oil pool or gas field underlying the properties based upon interpretation of the geological and geophysical data available to enable a determination of the estimated ultimate size of the pool or field, or that portion thereof underlying the Pinnacle properties.

In estimating the present net worth of Pinnacle's reserves, D & S has taken into account the most recent posted field prices or recent contract offerings in the immediate area where such reserves are located. In estimating prices to be obtained for such reserves, D & S has attempted to take into account the extreme upward pressures created by world energy shortages tempered by the stated policies of the Provincial Governments and the Federal Government of Canada.

The estimated present worth of the proven and probable additional reserves as shown in the above table does not necessarily reflect the fair market value of Pinnacle's properties under which such reserves lie if such properties were to be sold on the open market.

The D & S report will be available for inspection at the head office of Pinnacle during normal business hours for two weeks prior to the Annual and Special General Meeting of shareholders and at the meeting.

Location of Pinnacle's Reserves

The net crude oil and natural gas reserves owned by Pinnacle as at April 1, 1974, including those summarized in the table under the heading "Reserves of Pinnacle" on page 6 are located in the following areas:

Area	Proven	Probable Additional
Crude Oil	(BBLs)	(BBLs)
Province of Alberta:		
Crossfield	1,630	1,188
Pembina	534,996	144,942
Rainbow	80,922	53,825
Subtotal	617,548	199,955
Province of Saskatchewan:		
Benson	42,889	37,847
Browning	6,100	9,355
Doddsland	31,974	1,303
Hastings	12,253	17,587
Kisbey	2,481	—
Midale	43,183	11,222
Parkman	85,719	—
Pinto	1,224	—
Steelman	6,082	6,468
Storthoaks	6,980	—
Subtotal	238,885	83,782
Total Crude Oil	856,433	283,737
Natural Gas	(MCF)	(MCF)
Province of Alberta		
Cheddarville	1,110,000	—
Countess Makepeace	198,000	—
Donalda	78,000	—
Leahurst	703,000	—
Total Natural Gas	2,089,000	—

PEMBINA AREA

The net proven and probable additional crude oil reserves owned by Pinnacle in the Pembina area represent 59.6% of its net total proven and probable additional crude oil reserves. Production in the Pembina Area is from four unitized operations, the Carnwood Cardium Unit, the Cynthia Cardium Unit #4, the Pembina Belly River "B" South Unit and the Pembina Belly River "C" Unit.

The Carnwood Cardium Unit was formed on September 1, 1967 and a secondary recovery project was commenced March 1, 1968. Pinnacle holds a 1.69871 percent working interest in the 12,480 acre unit. The net remaining proven reserves as at April 1, 1974 owned by Pinnacle are 30,454 bbls. and the net remaining probable additional reserves are 46,100 bbls.

Pinnacle has a 0.6340 percent working interest subject to certain gross overriding royalty interests in the 4,000 acre Cynthia Cardium Unit #4. The unit is under primary depletion with the exception of 640 acres which began secondary recovery recently. The net remaining proven reserves as at April 1, 1974 owned by Pinnacle are 6,453 bbls. and the net remaining probable additional reserves are 4,414 bbls.

The Pembina Belly River "B" South Unit was formed on August 1, 1972. Pinnacle has a 3.11564 percent working interest therein subject to certain gross overriding royalty interests. Net remaining proven reserves as at April 1, 1974 owned by Pinnacle are 257,349 bbls. and the net remaining probable additional reserves are 48,613 bbls.

On March 1, 1968, the Pembina Belly River "C" Unit was formed. This unit encompasses 4,000 acres in which Pinnacle has a 3.45831 percent working interest subject to certain gross overriding royalty interests. A secondary recovery project is currently being implemented. Net remaining proven reserves as at April 1, 1974 owned by Pinnacle are 240,740 bbls. and the net remaining probable additional reserves are 45,815 bbls.

Exploration Acreage

In the D & S evaluation the fair market value of Pinnacle's unproven and wildcat acreage as at April 1, 1974 was evaluated at \$862,965. The following table shows the unproven and wildcat properties in which Pinnacle owned varying interests as at April 1, 1974:

<u>Area</u>	<u>Gross Acreage¹</u>	<u>Net Acreage¹</u>
Province of Alberta	36,530	14,194
Province of Saskatchewan	2,640	743
Province of British Columbia	640	640
Arctic Islands	3,491,169*	164,958*
	<u>3,530,979</u>	<u>180,535</u>

* Gross overriding royalty interest.

¹ The terms "gross acres" means the total acreage in which Pinnacle has an interest and the term "net acres" means the total acreage in each parcel multiplied by the percentage of the interest therein owned by Pinnacle.

In addition to the properties in the above table Pinnacle has a 6.25% net carried interest in Block 48-23-B in the British sector of the North Sea.

All of the exploration acreage located in the Provinces of Alberta, Saskatchewan and British Columbia in which Pinnacle owns an interest is held under lease from either the provincial governments or other parties who own the minerals.

Mining Properties

Grenville Exploration Limited, a 60% owned subsidiary of Pinnacle, owns 31 claims stretching some 3.5 miles along the Grenville fault zone adjoining the Icon Sullivan Joint Venture producing copper mine in Quebec. Grenville Exploration Limited is currently formulating plans for the further exploration of these properties.

Market History of Pinnacle on The Toronto Stock Exchange

The shares of Pinnacle are listed for trading on The Toronto Stock Exchange. The trading history of the shares for March, April, May and June, 1974, is as follows:

	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
High	45¢	46¢	39¢	32¢
Low	22¢	32¢	27¢	26¢
Volume	715,000	303,700	120,700	19,200

PALOMA PETROLEUM LTD.

Paloma Petroleum Ltd. was incorporated under the laws of the Province of Alberta on September 22, 1964, as Maycom Oils Ltd., a private company. On August 26, 1969 the name of the company was changed to Paloma Petroleum Ltd. The address of the head and principal office is 2301 - 500-4th Avenue S.W., Calgary, Alberta.

Paloma Petroleum Ltd. has one wholly owned subsidiary, Paloma Petroleums, Inc., a Delaware corporation, which is engaged in oil and gas exploration in the United States. Unless the context otherwise requires, in this section, the term "Paloma" refers to Paloma Petroleum Ltd. and its subsidiary.

All shareholders, senior officers and directors of Paloma are Canadian citizens ordinarily resident in Canada.

Business of Paloma

Paloma has been under the direction of its president and controlling shareholder, R. J. Gowdy, since 1969 when Mr. Gowdy acquired control of Paloma and reorganized its operations. Since that time the value of its assets and the scope of its operations has increased substantially.

Through Mr. Gowdy and his joint venture associates, Paloma has located and developed numerous exploratory prospects. Typically, areas of interest are identified as being potential exploration areas based on technical analysis, proximity to markets, and other factors. Lands are then acquired in these areas of interest and detailed exploration plans developed. At this point, joint venture participants are involved, to fund drilling operations, in such a manner as to allow financial participation by Paloma commensurate with the degree of risk involved. Paloma has attempted whenever possible to attract participants who have the capability to provide the operation function in day to day management of discoveries. Paloma management anticipates a continuation of this philosophy which has proven historically to be successful.

To this point Paloma has restricted its theatre of operations to continental North America; however its management is of the opinion that future efforts should include investigation of fully international, explorable prospects appropriate to the availability of Paloma's resources. The principal activity, however, will continue to be the exploration for and the development of continental reserves.

Management of Paloma

R. J. Gowdy, 45, was born in Wichita Falls, Texas and holds a geological engineering degree from Texas Agricultural and Mechanical University. From 1951 to 1967 he was employed by two large oil companies during which time he was engaged in the evaluation of oil and gas properties in North America with emphasis on both exploration and reserve evaluation. In 1967 he was appointed President of Maycom Oils Ltd. which he and his wife subsequently purchased in 1969 and changed the name to Paloma Petroleum Ltd. Mr. Gowdy is presently a member of the American Institute of Professional Geologists, American Association of Petroleum Geologists, the Association of Professional Engineers, Geologists and Geophysicists of Alberta, and the Canadian Association of Petroleum Geologists. He became a Canadian citizen on July 19, 1973.

Reserves of Paloma

The D & S evaluation of producing and nonproducing properties of Paloma as of April 1, 1974 referred to under the heading "Proposed Amalgamation" on page 2 hereof, shows the following net reserves (after royalty deductions and adjustments for the interests of others) and their estimated present net worth (after repayment of a development loan referred to under the heading "Development Loans" on page 11) discounted at the rate of 9% and 12%.

	Net Reserves			Estimated Present Net Worth	
	Proven	Probable Additional	Total	At Discount Rate of 9%	At Discount Rate of 12%
Natural Gas (MCF)					
Province of Alberta	47,415,000	—	47,415,000	\$19,173,822	\$15,638,737
Crude Oil (Bbls)					
Province of Saskatchewan	79,520	—	79,520	179,044	154,729
Province of Alberta	46,971	25,481	72,452	255,710	213,603
	<u>126,491</u>	<u>25,481</u>	<u>151,972</u>	<u>\$19,608,576</u>	<u>\$16,007,069</u>

The above estimated present net worth has been calculated after provision for estimated future capital expenditures.

Proven reserves are the estimated economically recoverable quantities of oil or natural gas, including the reserves to be obtained by enhanced recovery processes demonstrated to be favourable, delineated by gas-oil or gas-water contacts in drilled wells, or which can be reasonably evaluated as economically productive on the basis of drilling, geological, geophysical and engineering data but do not include reserves in undrilled prospects. Probable additional reserves are considered to be those additional reserves which may be recovered from the portion of the oil pool or gas field underlying the properties based upon interpretation of the geological and geophysical data available to enable a determination of the estimated ultimate size of the pool or field, or that portion thereof underlying Paloma's properties.

In estimating the present net worth of Paloma's reserves, D & S has taken into account the most recent posted field prices or recent contract offerings in the immediate area where such reserves are located. In estimating prices to be obtained for such reserves, D & S has attempted to take into account the extreme upward pressures created by world energy shortages tempered by the stated policies of the Provincial Governments and the Federal Government of Canada.

The estimated present worth of the proven and probable additional reserves as shown in the above table does not necessarily reflect the fair market value of Paloma's properties under which such reserves lie, if such properties were to be sold on the open market.

The D & S report will be available for inspection at the head office of Pinnacle during normal business hours for two weeks prior to the Annual and Special General Meeting of Shareholders and at the meeting.

Location of Paloma's Reserves

The crude oil and natural gas reserves owned by Paloma as at April 1, 1974, including those summarized in the table under the heading "Reserves of Paloma" on page 9, are located in the following areas:

<u>Area</u>	<u>Proven</u>
Natural Gas	
	(MCF)
Province of Alberta	
Atmore	70,000
Bellis	151,000
Belloy	12,634,000
Gordondale	318,000
Hines Creek	39,000
Woking	570,000
Dunvegan	<u>33,633,000</u>
Total natural gas	<u>47,415,000</u>

Crude Oil	Proven (BBLs)	Probable Additional (BBLs)
Province of Saskatchewan		
Eureka	79,520	—
Province of Alberta		
Chauvin	9,183	11,317
Manyberries	37,788	14,164
Total crude oil	<u>126,491</u>	<u>25,481</u>

Dunvegan Area

Paloma has a 4.51698% working interest in the Dunvegan Gas Unit #1 located in the Peace River district of northwestern Alberta. The D & S report estimates that the gross remaining marketable gas reserves in the Dunvegan Unit as at April 1, 1974 were approximately 1.519 trillion cubic feet. Paloma's share (after deduction for royalties and interests of others) in these reserves is estimated in the report to be 33.633 billion cubic feet.

Initial deliveries from the Dunvegan field began in January, 1973 and have been increasing up to the present time as additional development wells and gathering system pipe lines have been completed. The total cumulative production from the field has been estimated in the D & S report to have been 46.273 billion cubic feet up to April 1, 1974.

The Dunvegan Unit is operated by Anderson Exploration Ltd., a co-discoverer with Paloma of the Dunvegan field.

Paloma's gas production from the Dunvegan field is sold to Alberta & Southern Gas Co. Ltd. ("Alberta & Southern") under a contract providing for minimum rates of take or payment by Alberta & Southern whether or not production is taken. Under the Alberta & Southern contract Paloma receives approximately 50c per mcf at the wellhead for gas sold, which price became effective July 1, 1974. The contract provides for a re-negotiation of this price every two years commencing July 1, 1975, with provision for binding arbitration in the event that the parties are unable to agree.

Belloy Area

Paloma has working interests varying from 4.1% to 21.9% in the Belloy field, located approximately twenty miles southeast of the Dunvegan field in the Peace River district of northwestern Alberta. The D & S report estimates that the gross remaining marketable gas reserves in the Belloy field as at April 1, 1974 were approximately 129.4 billion cubic feet. Paloma's share (after deduction for estimated royalties and interests of others) in these reserves is estimated in the report to be 12.634 billion cubic feet.

Commercial production from the Belloy field began in December, 1972 and has been increasing with the addition of further development wells and gathering systems. The total cumulative production from the field is estimated, in the D & S report, to have been 6.1 billion cubic feet up to April 1, 1974.

The Belloy field is also operated by Anderson Exploration Ltd. Paloma's gas production from the Belloy field is sold to Alberta & Southern under the same contract referred to with respect to the Dunvegan area.

Paloma and the other working interest owners in the Belloy field anticipate that a program of additional development drilling will be commenced in the near future.

Development Loans

As part of the gas purchase contract entered into with Alberta & Southern, which provides for the sale of gas production from the Dunvegan and Belloy gas fields, certain working interest owners were advanced approximately \$11,000,000 by way of non-interest bearing development loans from Alberta & Southern.

Paloma and certain participants participating with Paloma received a portion of these development loans and Paloma's share thereof amounted to \$630,350 of which \$177,550 had been repaid as at March 31, 1974. While Paloma is directly liable for repayment of the full amount advanced to it and its participants, of which \$1,659,657 was outstanding as at March 31, 1974, Paloma's participants are obligated to indemnify Paloma in respect of repayment of their portion of the loan, being \$1,206,857 as at March 31, 1974. The loan is secured by

an assignment of Paloma's and its participants' interest in these reserves and is repayable at the rate of one-third of the monthly gas production from these reserves but in any event not later than 1982. In the evaluation as at April 1, 1974, D & S deducted an amount equal to Paloma's share of the repayment of these loans in its calculation of the present net worth of Paloma's reserves.

Secured Bank Loan

As at August 1, 1974, Paloma was indebted to a Canadian Chartered bank in the amount of \$2,232,000 in respect of a loan from such bank. Although such loan is payable on demand, under the agreed terms of repayment no payments will be made until July, 1975. The loan is secured by an assignment pursuant to Section 82 of the Bank Act of Canada of Paloma's producing natural gas properties.

Drilling Activity

Paloma has drilled or participated in drilling petroleum and natural gas wells as follows:

<u>Year</u>	<u>Oil Wells</u>	<u>Gas Wells</u>	<u>Dry and Abandoned</u>	<u>Total</u>
1970	4	7	4	15
1971	3	13	11	27
1972	2	24	14	40
1973	2	11	10	23
Three months to March 31, 1974	—	5	5	10
	<u>11</u>	<u>60</u>	<u>44</u>	<u>115</u>

Interest in Wells

Paloma has working interests in the following wells in Alberta and Saskatchewan:

	<u>Gross Wells</u>			<u>Net Wells</u>
	<u>Unitized</u>	<u>Non-unitized Producing</u>	<u>Shut-In</u>	
Oil wells	70	5	2	3.3
Gas wells	45	8	5	2.9

As used in the above table, the term "gross wells" means the total number of wells in which Paloma has a working interest, and the term "net wells" means the number of gross wells multiplied by the percentage of the interest therein owned by Paloma.

Production History

The following table provides production statistics for Paloma for the three years and three months ended March 31, 1974:

	<u>Year 1971</u>	<u>Year 1972</u>	<u>Year 1973</u>	<u>Three Months To March 31, 1974</u>
Crude oil (bbls)	8,453	9,386	12,486	3,914
Natural gas (mcf)	—	22,734	1,825,578	546,560
Liquified Petroleum gases (bbls)	—	—	14,973	4,280

Exploration Acreage

The fair market value of the exploration acreage owned by Paloma as at April 1, 1974 is estimated in the D & S report to be \$426,161. The following table shows the exploration acreage in which Paloma owns varying

interests as at April 1, 1974, but does not include lands to which reserves, both proven and probable additional have been assigned, which reserves have been described previously in this circular.

	<u>Gross Acres¹</u>	<u>Net Acres¹</u>
Province of Alberta		
Dunvegan	23,840	1,051
Belloy	12,860	471
Manyberries	10,080	240
Woking	46,720	3,044
Chauvin (2)	1,120	14
Atmore (2)	12,160	202
Gordondale	43,200	2,550
Royce	43,040	1,838
Saddle Hills	29,120	810
Braeburn	2,560	266
Hines Creek	97,600	5,061
Pouce Coupe	14,720	507
Wood Buffalo	19,840	734
Princess (2)	4,480	67
Total Province of Alberta	361,340	16,855
United States		
Arkansas	68,500	34,250
Total undeveloped lands	<u>429,840</u>	<u>51,105</u>

(1) The terms "gross acres" means the total acreage in which Paloma has an interest and the term "net acres" means the total acreage in each parcel multiplied by the percentage of the interest therein owned by Paloma.

(2) Paloma's interest in these properties is in the form of a gross overriding royalty.

Substantially all of the exploratory acreage in which Paloma owns an interest is held under lease from provincial or state governments or from other parties who own the minerals. The balance of the exploratory acreage in which Paloma owns an interest is held under petroleum and natural gas reservations and drilling reservations issued by the Province of Alberta. Pursuant to such reservations, provided the holder has conducted certain work and satisfied other obligations, the holder is entitled to select petroleum and natural gas leases therefrom covering not more than 50% of the acreage included in the reservation. The balance of the acreage reverts to the Crown. Leases confer upon the holder the right to produce and remove petroleum and natural gas from the lands.

Exploration Programs

Paloma is presently actively participating in two major exploration programs.

Peace River District

Paloma and its partners have agreed to conduct an exploration program on certain jointly owned lands in the Peace River district of northwestern Alberta. The program involves the drilling of twenty-five wells on these lands and on additional lands to be acquired over the term of the agreement. The drilling program has been financed by an outside investor who will earn a 25% interest in lands under the program. As at March 31, 1974, 21 of these wells had been drilled resulting in 4 shut-in gas wells. Follow-up drilling has resulted in 2 producing or shut-in gas wells. The remaining wells under the program must be drilled prior to May, 1975 and in this connection several geological prospects are being developed. All drilling advances under the program have now been received.

State of Arkansas

Paloma, in association with two United States oil companies, has just completed the assembly of a block of mineral leases comprising approximately 68,500 acres in the State of Arkansas. This acreage is located in Cleburne and Van Buren Counties, in the Arkoma Sedimentary Basin, which is productive at its western extremity in the State of Oklahoma and at its eastern extremity in the State of Mississippi. The area is characterized by mappable surface features and at the present time, Paloma, in association with its joint venture partners, is conducting extensive geological and geophysical studies to identify drillable prospects.

Title to Property

Pinnacle has been advised by Paloma management, that Paloma management believes that Paloma has satisfactory title to its properties and is not aware of any imperfection of title to any of its properties which is material to their use in the conduct of Paloma's business. No special investigation has been made by either Pinnacle or Paloma of Paloma's properties in connection with this transaction.

Interest of Directors and Senior Officers of Paloma in Material Transactions

On June 28, 1974 Paloma purchased from a company owned by Robert J. Gowdy and Carole M. Gowdy, his wife, all of the issued and outstanding shares in the capital of Paloma Petroleums, Inc., a Delaware Company, for a cash consideration of \$1,000, being the cost to the vendor of acquiring such shares. Robert J. Gowdy is the President, a director and the beneficial owner of more than 10% of the outstanding shares of Paloma, and Carole M. Gowdy is the beneficial owner of more than 10% of the outstanding shares of Paloma.

Ownership by Paloma and Others of Securities of Pinnacle

As at the date of this circular, Paloma owned 1,948,222 shares of Pinnacle. To the knowledge of Pinnacle, no shares of Pinnacle are beneficially owned directly or indirectly by associates of Paloma, any Directors or senior officers of Paloma or any of their associates, or by any person or company who to the knowledge of the directors or senior officers of Pinnacle beneficially owns, directly or indirectly, equity shares of Paloma carrying more than 10% of the voting rights attached to all equity shares of Paloma for the time being outstanding.

None of such persons have, to the knowledge of the directors or senior officers of Pinnacle, traded any equity shares or other securities of Pinnacle during the six month period preceding the date of this Circular, other than the purchase by Paloma on March 29, 1974, of 245,500 shares and on May 15, 1974, of 1,702,722 shares of Pinnacle.

MATERIAL CHANGES

There is no information known to the directors or senior officers of Pinnacle which would indicate any material change in the financial position or prospects of either Pinnacle or Paloma since the dates of their respective financial statements which appear on pages 17 to 28 of this Circular.

OTHER MATTERS TO BE ACTED UPON

The management knows of no matter to come before the Annual and Special General Meeting of Shareholders other than the matters referred to in the notice of meeting. However, if any other matters which are not now known to the management should properly come before the meeting, the accompanying proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy.

THE AMALGAMATED COMPANY
PALOMA PETROLEUM LTD. AND SUBSIDIARY COMPANIES

Pro Forma Consolidated Amalgamated Balance Sheet
March 31, 1974
(Unaudited)

Assets

Current assets:

Cash and term deposits		\$ 476,196
Accounts receivable		494,063
Note receivable		181,112
Prepaid expenses		2,360
Total current assets		<u>1,153,731</u>

Property and equipment:

Petroleum and natural gas properties	\$3,533,531	
Less accumulated depletion	<u>880,216</u>	
	2,653,315	
Production and other equipment	860,888	
Less accumulated depreciation	<u>330,980</u>	
	529,908	
Mining properties	<u>147,089</u>	3,330,312

Other assets:

Deferred accounts receivable	28,103	
Refundable deposits	51,807	
Drilling rig held for resale, at cost		
less accumulated depreciation	10,841	
Incorporation costs	<u>7,527</u>	98,278
		<u>\$4,582,321</u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities		\$ 605,639
Total current liabilities		<u>605,639</u>

Long-term debt:

Bank loan	\$1,964,500	
Development loan	<u>452,800</u>	2,417,300

Deferred revenue		10,449
Minority interest in shares of subsidiary company		40,000

Shareholders' equity:

Share capital:		
Common shares without nominal or par value.		
Authorized 7,000,000 shares; issued 4,139,149 shares	1,166,313	
Contributed surplus	324,438	
Retained earnings	<u>18,182</u>	1,508,933
		<u>\$4,582,321</u>

See accompanying notes.

THE AMALGAMATED COMPANY
PALOMA PETROLEUM LTD. AND SUBSIDIARY COMPANIES

Notes to Pro Forma Consolidated Amalgamated Balance Sheet
March 31, 1974

(Unaudited)

The pro forma consolidated amalgamated balance sheet gives effect as of March 31, 1974, to the following:

1. Subsequent events of Paloma Petroleum Ltd., one of the amalgamating companies.
 - (a) The purchase by Paloma Petroleum Ltd. of 1,702,722 shares of Pinnacle Petroleums Ltd. under an agreement dated May 15, 1974, for an aggregate price of \$1,250,000, satisfied from the proceeds of a bank loan in the amount of \$1,237,500 and the application of a deposit of \$12,500 on purchase of these shares.
 - (b) The purchase by Paloma Petroleum Ltd. of all of the outstanding shares of Paloma Petroleums, Inc. for a consideration of \$1,000.
 - (c) The repayment to Paloma Petroleum Ltd. of amounts due from shareholders of \$108,638.
2. Subsequent event of Pinnacle Petroleums Ltd., one of the amalgamating companies.
 - (a) The reduction of the paid up capital of Pinnacle Petroleums Ltd. in the amount of \$3,946,879 and the application of such amount to eliminate the accumulated deficit of that company as of March 31, 1974.
3. Amalgamation.
 - (a) The proposed amalgamation of Pinnacle Petroleums Ltd. and Paloma Petroleum Ltd. on the basis that for every six and one-half shares of Pinnacle held, each shareholder (excluding the 1,948,222 shares presently owned by Paloma Petroleum Ltd.) will receive one share of the amalgamated company and that for every share held, each shareholder of Paloma will receive 36,109.95 shares of the amalgamated company.
 - (b) The combination of the balance sheets of Pinnacle Petroleums Ltd. and its subsidiary companies and Paloma Petroleum Ltd. and its subsidiary company Paloma Petroleums, Inc.
 - (c) The recording of the estimated fair market value of the shares of Pinnacle Petroleums Ltd., being the acquired company, under the purchase method of accounting. The excess of the estimated fair market value of these shares over their underlying net book value, amounting to \$324,438, has on amalgamation been included under the heading "Petroleum and natural gas properties" and credited to contributed surplus of the amalgamated company. For purposes of this Pro Forma Consolidated Amalgamated Balance Sheet the estimated fair market value of Pinnacle Petroleums Ltd., amounts to \$2,152,358 being \$0.40 per share. However from March 31, 1974 to date of amalgamation changes in the financial position and results of operations may change the estimated fair market value of Pinnacle Petroleums Ltd. Final determination of the fair market value will be made by the Board of Directors.
 - (d) Elimination of 1,948,222 shares of Pinnacle Petroleums Ltd. owned by Paloma Petroleum Ltd. The excess of the purchase price of the shares over their aggregate recorded value, (see note 3a), amounting to \$698,768, has on amalgamation been included under the heading "Petroleum and natural gas properties" and will be depleted on the composite unit of production basis.
 - (e) The conversion of a stock option held by a former employee of Pinnacle Petroleums Ltd. to an option to purchase 3,846 shares of the Amalgamated Company, exercisable as to four-fifths thereof on or before April 6, 1976, and as to a further one-fifth thereof after April 6, 1975 and before April 6, 1976, at a price of \$4.35 per share.

PINNACLE PETROLEUMS LTD. AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet March 31, 1974

Assets

Current assets:

Cash and term deposits	\$ 372,599
Accounts receivable	45,665
Note receivable	181,112
Prepaid expense	1,437
Total current assets	<u>600,813</u>

Property and equipment (Note 1):

Petroleum and natural gas properties	1,819,347
Less accumulated depletion	<u>789,055</u>
	1,030,292
Production and other equipment	449,401
Less accumulated depreciation	<u>315,996</u>
	133,405
Mining properties	<u>147,089</u>
Net property and equipment	<u>1,310,786</u>

Other assets:

Deferred accounts receivable	28,103
Drilling and other deposits, at cost, less amounts written off	42,766
Drilling rig held for sale, at cost, less accumulated depreciation	10,841
Incorporation costs	<u>5,661</u>
	87,371
	<u><u>\$1,998,970</u></u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	\$ 120,601
Total current liabilities	<u>120,601</u>

Deferred income	10,449
Minority interest in a subsidiary	40,000

Shareholders' equity:

Share capital (Note 2):

Shares without nominal or par value.	
Authorized 7,000,000 shares; issued 5,380,895 shares	5,774,799
Deficit	<u>3,946,879</u>
	1,827,920
	<u><u>\$1,998,970</u></u>

See accompanying notes.

PINNACLE PETROLEUMS LTD. AND SUBSIDIARY COMPANIES

Consolidated Statement of Income

	Years ended March 31,		
	<u>1972</u>	<u>1973</u>	<u>1974</u>
	(Restated)		
Revenues:			
Oil and gas	\$ 251,244	280,271	356,639
Interest and other	41,625	38,827	38,666
	<u>292,869</u>	<u>319,098</u>	<u>395,305</u>
Expenses:			
Production	94,813	130,567	126,773
General and administrative	151,826	136,494	207,786
Depreciation	49,274	36,627	38,961
Depletion	83,142	78,284	64,000
Foreign exploration abandonments	—	—	62,638
	<u>379,055</u>	<u>381,972</u>	<u>500,158</u>
Net loss before extraordinary items	86,186	62,874	104,853
Extraordinary items:			
Recovery (write-off) of advances to non-consolidated subsidiary previously written-off (Note 1)	(39,900)	8,131	248,363
Gain on sale of equipment	—	3,709	14,759
	<u>(39,900)</u>	<u>11,840</u>	<u>263,122</u>
Net income (loss)	\$ (126,086)	(51,034)	158,269
Income (loss) per share:			
Loss before extraordinary items	\$ (0.02)	(0.01)	(0.02)
Net income (loss)	\$ (0.02)	(0.01)	0.03

Consolidated Statement of Deficit

	Years ended March 31,		
	<u>1972</u>	<u>1973</u>	<u>1974</u>
	(Restated)		
Balance at beginning of period	\$3,928,028	4,054,114	4,105,148
Net loss (income) for the period	126,086	51,034	(158,269)
Balance at end of period	<u>\$4,054,114</u>	<u>4,105,148</u>	<u>3,946,879</u>

See accompanying notes.

PINNACLE PETROLEUMS LTD. AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

	Years ended March 31,		
	1972	1973	1974
	(Restated)		
Source of funds:			
From operations:			
Net loss before extraordinary items	\$ (86,186)	(62,874)	(104,853)
Non-cash charges	132,416	114,911	165,599
Total funds provided from operations	46,230	52,037	60,746
Proceeds from disposal of capital assets	8,356	17,737	19,372
Other	927	—	990
Decrease in note receivable	46,077	—	181,112
Decrease (increase) in advances to non-consolidated subsidiary	(39,900)	8,131	248,363
	61,690	77,905	510,583
Use of funds:			
Additions to property and equipment	80,688	195,488	490,650
Increase (decrease) in working capital	(18,998)	(117,583)	19,933
Working capital beginning of year	596,860	577,862	460,279
Working capital end of year	\$ 577,862	460,279	480,212

See accompanying notes.

PINNACLE PETROLEUMS LTD. AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

1. Accounting principles:

The consolidated financial statements include the accounts of Pinnacle Petroleum Ltd. and its wholly-owned subsidiary companies, Baldonnell Oil & Gas Ltd., Grizzly Petroleum Limited and Grizzly Exploration (U.K.) Ltd. and Grenville Exploration Ltd., a 60% owned subsidiary. All of the expenditures of Grenville Exploration Ltd. to date have been related to pre-production and such have been capitalized in the accounts. These amounts are included in the accompanying consolidated financial statements under the caption "Mining properties."

The Company also had another wholly-owned subsidiary Midalta Oil Company Limited (Midalta) which has not been consolidated since 1972 because in the opinion of the Board of Directors this subsidiary did not form part of the consolidated group of companies on a continuing basis. In addition, neither the company nor any of its other subsidiaries had any obligations, guarantees or commitments to or on behalf of Midalta and the full amount relating to the investment in and advances to Midalta had been written off in the accounts of the company prior to 1972. The accounts for the year ended March 31, 1972 in the accompanying financial statements have been restated to exclude the accounts of Midalta to conform to the presentation in subsequent years. Subsequent to March 31, 1974 the shares of Midalta were sold for a nominal consideration.

The excess of the purchase price of the shares of the subsidiaries over their underlying net book values at dates of acquisition amounting to \$2,567,698 has, on consolidation, been added to petroleum and natural gas properties and is being depleted accordingly.

The companies follow the "full cost" method of accounting wherein all costs and expenses of exploring for and developing oil and natural gas reserves in Canada are capitalized and depleted over the estimated lives of the properties on a composite unit of production basis. In 1970 the company wrote down the carrying value of its petroleum and natural gas properties by \$1,960,000. All other property and equipment are carried at cost.

Lease and well equipment and other assets are being depreciated over their estimated useful lives.

2. Share capital:

In 1972 the company granted to an officer an option to purchase up to 25,000 shares in the capital of the company at \$0.67 per share. The option is exercisable 5,000 shares per annum on a cumulative basis, commencing April 7, 1972 and expiring on April 7, 1976. No portion of this option has been exercised to date.

3. Income taxes:

For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in the amounts which may exceed the related depletion and depreciation reflected in the accounts. At March 31, 1974 the following amounts remain to be carried forward and applied against future taxable incomes to the maximum amounts permitted annually under the Income Tax Act:

Drilling, exploration and lease acquisition costs	\$1,696,751
Undepreciated capital cost	\$ 206,894

4. Income (loss) per share:

The income (loss) per share amounts are calculated using the weighted average number of shares outstanding during each of the respective years.

5. Subsequent events:

- (a) The directors have approved subject to ratification by the shareholders and approval by the Supreme Court of the Province of Alberta, a reduction of its paid up capital in the amount of \$3,946,879 which will be applied in elimination of the deficit as at March 31, 1974.
- (b) The company has agreed to amalgamate with Paloma Petroleum Ltd. (an Alberta private company), subject to ratification by the shareholders of both companies. The amalgamation agreement provides that each shareholder of the company (other than Paloma Petroleum Ltd.) will receive one share in the capital stock of the amalgamated company for every six and one-half shares held prior to amalgamation and each shareholder of Paloma will receive 36,109.95 shares in the capital stock of the amalgamated company for each share held prior to amalgamation.

AUDITORS' REPORT

To the Board of Directors
Pinnacle Petroleums Ltd.

We have examined the consolidated balance sheet of Pinnacle Petroleums Ltd. and subsidiary companies as of March 31, 1974, and the consolidated statements of income, deficit and changes in financial position for the three years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as of March 31, 1974 and the results of their operations and changes in their financial position for the three years then ended, in accordance with generally accepted accounting principles applied on a consistent basis, as restated (Note 1).

Calgary, Alberta
July 29, 1974

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

PALOMA PETROLEUM LTD.

Balance Sheet
March 31, 1974

Assets

Current assets:

Accounts receivable	\$ 510,282
Due from shareholders (Note 6 c)	108,638
Prepaid expenses	923
Total current assets	<u>619,843</u>
Refundable deposits	<u>9,041</u>
Investment in shares of Pinnacle Petroleums Ltd., at cost (quoted market value \$98,200) (Note 5)	110,475
Deposit on purchase of shares (Note 6 a)	12,500
Property and equipment, at cost (Notes 1, 2 and 3):	
Petroleum and natural gas properties	471,565
Less accumulated depletion	<u>39,893</u>
	431,672
Production and other equipment	549,900
Less accumulated depreciation	<u>66,252</u>
	483,648
	<u>915,320</u>
Incorporation costs	<u>370</u>
	<u><u>\$1,667,549</u></u>

Liabilities

Current liabilities:

Bank overdraft	\$ 5,041
Accounts payable and accrued liabilities	<u>464,426</u>
Total current liabilities	<u>469,467</u>
Development loan (Note 2)	452,800
Bank loan (Notes 3 and 6)	727,000
Shareholders' equity:	
Share capital:	
Shares without nominal or par value	
Authorized 20,000 shares; issued 100 shares	100
Retained earnings	<u>18,182</u>
	<u>18,282</u>
	<u><u>\$1,667,549</u></u>

See accompanying notes.

PALOMA PETROLEUM LTD.

Statement of Earnings and Retained Earnings (Deficit)

	Year ended December 31			Three Months Ended March 31, 1974
	1971 (Unaudited)	1972	1973	
Revenues:				
Oil and gas	\$ 26,571	24,446	390,640	144,354
Interest	5,319	10,099	—	—
Other	6,703	2,500	11,614	4,140
	<u>38,593</u>	<u>37,045</u>	<u>402,254</u>	<u>148,494</u>
Expenses:				
Production	14,656	9,834	44,055	25,613
General and administrative	96,525	143,315	198,014	43,216
Interest				
Long-term	2,518	2,322	34,266	12,954
Other	1,051	1,783	573	—
Depreciation and amortization	11,983	11,952	36,820	5,952
Depletion	2,112	4,104	9,079	3,471
	<u>128,845</u>	<u>173,310</u>	<u>322,807</u>	<u>91,206</u>
Net earnings (loss) before extraordinary item	(90,252)	(136,265)	79,447	57,288
Gain on sale of land and buildings	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,920</u>
Net earnings (loss)	(90,252)	(136,265)	79,447	92,208
Retained earnings (deficit) beginning of period	73,044	(17,208)	(153,473)	(74,026)
Retained earnings (deficit) end of period	<u>\$ (17,208)</u>	<u>(153,473)</u>	<u>(74,026)</u>	<u>18,182</u>

See accompanying notes.

PALOMA PETROLEUM LTD.

Statement of Changes in Financial Position

	Year ended December 31			Three Months ended March 31, 1974
	1971 (Unaudited)	1972	1973	
Source of funds:				
From operations				
Net earnings before extraordinary item	\$ —	—	79,447	57,288
Add non-cash charges	—	—	45,899	9,423
	<u>—</u>	<u>—</u>	<u>125,346</u>	<u>66,711</u>
Development loan	468,794	71,552	—	—
Decrease (increase) in refundable deposits . .	40,220	—	—	(5,458)
Proceeds on sale of land and buildings	—	—	—	90,000
Increase in bank loan	—	—	446,000	393,115
	<u>509,014</u>	<u>71,552</u>	<u>571,346</u>	<u>544,368</u>
Use of funds:				
From operations				
Net loss before extraordinary item	90,252	136,265	—	—
Deduct non-cash charges	14,095	16,056	—	—
	<u>76,157</u>	<u>120,209</u>	<u>—</u>	<u>—</u>
Investment in shares of Pinnacle Petroleums Ltd.	—	—	—	122,975
Net additions to property and equipment	(22,056)	299,185	546,790	64,602
Decrease in bank loan and other long-term debt	4,557	1,200	139,673	—
Reduction of development loan	—	—	129,356	48,190
	<u>58,658</u>	<u>420,594</u>	<u>815,819</u>	<u>235,767</u>
Increase (decrease) in working capital	450,356	(349,042)	(244,473)	308,601
Working capital, beginning of period	(15,066)	435,290	86,248	(158,225)
Working capital, end of period	<u>\$435,290</u>	<u>86,248</u>	<u>(158,225)</u>	<u>150,376</u>

See accompanying notes.

PALOMA PETROLEUM LTD.

Notes to Financial Statements March 31, 1974

1. Accounting principles:

Prior to 1974 the company followed the practice of charging geological and geophysical costs and lease rentals on undeveloped properties to income as incurred. Non-productive leasehold acquisition and drilling costs were charged to income at the time a project was determined to be non-productive. Depletion of productive leaseholds and drilling costs was provided on a unit of production basis.

In 1974 the company adopted retroactively the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs capitalized include those related to acquisition of petroleum and

natural gas rights, geological and geophysical exploration, lease rentals on undeveloped properties, drilling of productive and non-productive wells and other expenses directly related to exploration activities. All such costs are being depleted on a unit of production method based on estimated recoverable reserves. Lease and well equipment and other production equipment are being depreciated on the unit of production method; other assets are depreciated over their estimated useful lives. The change in accounting practice was adopted retroactively to January 1, 1970, prior to which time the Company did not have significant production or exploration activity. The retroactive adoption of the full cost method of accounting resulted in an insignificant net increase in property and equipment and of the previously reported deficit.

2. Development loan:

Pursuant to the terms of an agreement with a gas purchaser, the company, on behalf of itself and other participants, obtained a non-interest bearing development loan in connection with certain gas reserves owned by the company and its participants. The loan is secured by an assignment of these reserves and is repayable at the rate of one-third of the monthly gross production from these properties, but in any event, not later than 1982. It is estimated, based on the current rates of production and the take or pay provisions of the gas purchase contract, the development loan will be repaid not later than September 1975.

The gross amount of the development loan outstanding at March 31, 1974 amounted to \$1,659,657 of which \$1,206,857 was advanced to the other participants. While the company is directly liable to the gas purchaser for the gross amount of the loan the other participants are obligated to indemnify the company in respect of repayment of their portion of the loan.

3. Bank loan:

Although the bank loan is payable on demand, under the agreed terms of repayment no payments will be made until July, 1975. The bank loan is secured by an assignment of the company's interest in certain petroleum and natural gas properties and by an assignment of production proceeds.

4. Income taxes:

For income tax purposes the company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts.

At March 31, 1974 the following amounts remain to be carried forward and applied against future taxable incomes to the maximum amounts permitted annually under the Income Tax Act:

Drilling, exploration and lease acquisition costs	\$651,317
Undepreciated capital cost	\$319,391

5. Investment in Pinnacle Petroleums Ltd.

Owing to the number of shares owned, the market value is not necessarily indicative of the value that the company would receive if the shares were sold.

6. Subsequent events:

- (a) On May 15, 1974 the company acquired 1,702,722 shares of Pinnacle Petroleums Ltd. for a cash consideration of \$1,250,000, satisfied from the proceeds of a bank loan in the amount of \$1,237,500 and the application of a deposit of \$12,500 on purchase of these shares. Together with shares previously acquired the company owns approximately 36.2% of the issued and outstanding shares of that company.

The company has agreed to amalgamate with Pinnacle Petroleums Ltd., a public company, subject to ratification by the shareholders of both companies. The amalgamation agreement provides that

each shareholder of the company will receive 36,109.95 shares in the capital stock of the amalgamated company for each share held prior to amalgamation and that each shareholder of Pinnacle Petroleum Ltd. (other than the company) will receive one share in the capital stock of the amalgamated company for every six and one-half shares held prior to amalgamation.

- (b) On June 28, 1974 the company acquired from an associated company, Paloma Industries Ltd. all of the outstanding shares of Paloma Petroleum, Inc. for a consideration of \$1,000. Details of this acquisition are as follows:

Petroleum and natural gas leases	\$81,000
Incorporation costs	1,496
	82,496
Less liabilities	81,496
Net assets acquired	<u>\$ 1,000</u>

- (c) On August 1, 1974 the amount due from shareholders was paid to the company.

AUDITORS' REPORT

To the Board of Directors
Paloma Petroleum Ltd.

We have examined the balance sheet of Paloma Petroleum Ltd. as of March 31, 1974 and the statements of earnings and retained earnings (deficit) and changes in financial position for the two years and three months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the financial statements present fairly the financial position of the company as of March 31, 1974 and the results of its operations and changes in its financial position for the two years and three months then ended, in accordance with generally accepted accounting principles applied on a consistent basis, as restated (Note 1).

Calgary, Alberta
August 1, 1974

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

PALOMA PETROLEUMS, INC.

Balance Sheet
March 31, 1974

Assets

Undeveloped petroleum and natural gas properties, at cost	\$81,000
Incorporation costs	1,496
	<u>\$82,496</u>

Liabilities

Current liabilities:	
Accounts payable and accrued liabilities	\$18,500
Total current liabilities	18,500
Due to parent company	61,500
Due to associated company	1,496
Capital stock:	
Common shares having a par value of \$1 each.	
Authorized 10,000 shares; issued 1,000 shares	1,000
	<u>\$82,496</u>

See accompanying notes.

PALOMA PETROLEUMS, INC.

Notes to Financial Statements
March 31, 1974

1. The company was incorporated on January 21, 1974 under the laws of the State of Delaware and commenced operations on that date.
2. All of the company's operations for the period from the date of commencement of operations January 21, 1974, to March 31, 1974 have been in connection with the acquisition of undeveloped oil and gas properties, which costs have been capitalized and accordingly there is no statement of earnings.

To the Board of Directors
Paloma Petroleums, Inc.

We have examined the balance sheet of Paloma Petroleums, Inc. as of March 31, 1974. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the aforementioned balance sheet presents fairly the financial position of Paloma Petroleums, Inc. at March 31, 1974 in conformity with generally accepted accounting principles.

Calgary, Alberta
July 3, 1974

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

THIS INDENTURE made this 26 day of July, A.D. 1974.

BETWEEN:

PINNACLE PETROLEUMS LTD., a body corporate,
having its head office at the City of Calgary, in
the Province of Alberta,
(hereinafter called "Pinnacle")

OF THE FIRST PART

— and —

PALOMA PETROLEUM LTD., a body corporate,
having its head office at the City of Calgary, in the
Province of Alberta,
(hereinafter called "Paloma")

OF THE SECOND PART

WHEREAS the parties hereto (herein collectively called the "Amalgamating Companies") have agreed to enter into these presents (herein called the "Agreement of Amalgamation") providing for the amalgamation of the Amalgamating Companies into one company pursuant to the provisions of Section 156 of The Companies Act of the Province of Alberta (herein called the "Companies Act") to be known by the name of Paloma Petroleum Ltd. (herein called the "Amalgamated Company"); and

WHEREAS Pinnacle is presently authorized to issue 7,000,000 common shares without nominal or par value for a maximum aggregate consideration of \$10,000,000 of which 5,380,895 have been issued as fully paid and non-assessable for a total consideration of \$5,774,799; and

WHEREAS at the meeting of shareholders of Pinnacle to be held for the purpose, among others, of approving the amalgamation of Pinnacle and Paloma, the shareholders of Pinnacle will be asked, prior to considering the proposed amalgamation, to consider and, if thought fit, adopt as a special resolution a resolution to reduce the paid up capital of Pinnacle to \$1,827,920 by applying \$3,946,879 of its paid up capital in elimination of the deficit of \$3,946,879 appearing on its balance sheet as of March 31, 1974; and

WHEREAS Paloma is presently and will on the effective date hereof be authorized to issue 20,000 common shares without nominal or par value for a maximum aggregate consideration of \$20,000 of which 100 have been issued as fully paid and non-assessable for a total consideration of \$100; and

WHEREAS each of the Amalgamating Companies has made full disclosure to the other of its respective assets and liabilities.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the mutual agreements, covenants and conditions herein contained, the parties hereto by these presents do, subject to adoption and approval of this Amalgamation Agreement as provided by law, agree to amalgamate into and be continued as one company under the name of Paloma Petroleum Ltd., having the objects set forth and described in Clause 4 hereof and having as its Articles of Association the form of Articles of Association annexed hereto as Schedule "A", which Amalgamated Company shall from the date of issuance of the Certificate of Amalgamation, pursuant to Section 156 of The Companies Act be seized of and shall hold and possess and enjoy all of the property, rights and interests, and shall be subject to all the debts, liabilities and obligations of each of the Amalgamating Companies.

AND THIS AGREEMENT FURTHER WITNESSETH that the Amalgamating Companies have agreed upon and by these presents do agree upon and prescribe the following as the terms and conditions which each of the parties hereto does hereby covenant, promise and agree to observe, keep and perform, namely:

1. The name of the Amalgamated Company shall be Paloma Petroleum Ltd.
2. The authorized capital of the Amalgamated Company shall be 7,000,000 common shares without nominal or par value, which may be issued for a maximum aggregate consideration of \$10,000,000.00.
3. The objects for which the Company is to be established are as follows:

(a) To engage in the business of prospecting, exploring, testing, digging, drilling, boring, mining, quarrying, exploiting, operating and extracting oil, gas and other hydrocarbons, minerals, ores and all other compounds, and in connection therewith to purchase, acquire, hold, own, lease, sublease, mortgage, sell, assign, transfer, convey or otherwise dispose of any of the aforesaid substances either separately or together with the land in, on or under which they are located; to purchase, acquire, hold, own, sell, or otherwise dispose of oil, gas and other hydrocarbon royalties and rights and all other royalties, rights and privileges; and to purchase, acquire, hold, own, drill, dig, maintain, operate and dispose of oil and gas wells, and other wells, mines and quarries for the production, removal, or extraction of other hydrocarbons, coal, minerals, ores and any other compounds.

(b) To engage in the business of purchasing or otherwise acquiring, refining, producing, processing, blending, manufacturing, warehousing, and storing in bulk, transporting, distributing, exporting and importing and wholesale or retail marketing and supplying of crude petroleum, refined petroleum products, natural and hydrocarbon gases, coals, minerals, ores, carbon blacks, naphthas, fuel oils, lubricants, asphalts, natural and synthetic rubber, latex, industrial resins, plastics, polymers, copolymers, petrochemicals and the derivatives, products, and by-products thereof.

(c) To engage in the business of constructing, purchasing, acquiring, owning, leasing, subleasing and operating facilities commonly referred to as gasoline service stations for the retail distribution and sale of gasoline, motor oils and other petroleum products, garages and automotive repair shops and purchasing or otherwise acquiring, selling or otherwise disposing of goods, wares, merchandise, commodities, materials, and services customarily sold, handled, distributed, or supplied by gasoline service stations, garages and automotive repair shops.

(d) To purchase or otherwise acquire land and real estate of all kinds and develop and operate the same and to manufacture, produce, transport, sell, market at wholesale or retail or otherwise dispose of, import, export, distribute, provide and deal in and with, whether as principal or agent, or through franchise dealers, distributors or otherwise, goods, wares, merchandise, materials, equipment and services of every kind and description.

(e) In connection with all the foregoing and with any other present or future businesses of the Company to purchase or otherwise acquire, lease, erect, construct, lay, install, develop, own, operate, maintain, sell, transfer, convey, mortgage, create liens upon or otherwise dispose of drilling and mining rigs, field equipment, derricks, pumps, pipelines, conduits, pumping stations, machines, engines, facilities, installations, vehicles, vessels, apparatus, equipment and all rights and privileges therein useful in the business of the Company.

(f) To operate, manage, supervise or control all or part of the business and property of any corporation, association, firm or entity, or to take part therein; to make, enter into, perform and carry out contracts and agreements of every kind and description, including but not limited to joint ventures and reciprocal concessions, with any person, corporation, firm, association, partnership, syndicate, trustee, or government or subdivision thereof.

(g) To acquire by purchase, exchange or otherwise all, or any part of, of any interest in, the properties, assets, business and good will of any one or more persons, firms, associations or corporations; to pay for the

same in cash or property or stock or obligations of the Company or otherwise; to hold, own, operate, reorganize, liquidate, sell or otherwise dispose of the whole or any part thereof subject to the laws of the Province of Alberta and Canada; and in connection therewith, to assume or guarantee performance of any liabilities, obligations or contracts of such persons, firms, associations or corporations, and to conduct the whole or any part of any business thus acquired.

(h) To subscribe for, purchase or otherwise acquire, and to hold, mortgage, pledge, sell, assign, transfer, exchange or otherwise dispose of securities, to pay for the same in cash, property or securities, or any combination thereof; and to exercise, as owner or holder of any securities, any and all rights, powers and privileges in respect thereof. The term "securities" as used herein includes without limitation of the generality of the foregoing, shares of stock, bonds, debentures, notes, mortgages or other evidences of indebtedness and certificates, receipts or other instruments representing rights to receive, purchase or subscribe for the same, or representing any other rights or interest therein or in any property or assets created or issued by any person, firm, association or corporation or government or subdivision thereof.

(i) To borrow or raise money for any of the objects or purposes of the Company, without limit as to amount, including, without in any way limiting the generality of the foregoing, the acquisition of property by conditional sale agreement or other title retention or security arrangement involving deferral of the purchase price; to issue, sell, exchange or otherwise dispose of its own securities in such amounts, on such terms and conditions, for such purposes and for such consideration, now or thereafter permitted by the laws of the Province of Alberta and Canada and by the provisions of this Clause, as the Board of Directors of the Company may determine; and to secure such securities, to the extent now or hereafter permitted by such laws and as the Board of Directors may determine by mortgage upon, or the pledge of, or the conveyance or assignment in trust of, the whole or any part of the properties, assets, contract rights, business and good will of the Company then owned or thereafter acquired.

(j) To the extent now or hereafter permitted by the laws of the Province of Alberta and Canada to advance or lend money to (with or without interest or security) any corporation, association, firm, entity, government or individual any of the securities of which have been acquired or contracted for by the Company or any of its subsidiaries, or in which or in whom or in the business of which or of whom the Company or any of its subsidiaries shall have any interest, direct or indirect.

(k) To guarantee the contracts, debts, securities, debentures, promissory notes and other obligations of any person, firm or corporation whatsoever.

4. The names, occupations and places of residence of the first directors of the Amalgamated Company are as follows:

Name	Occupation	Residence
Robert J. Gowdy	Executive	4427 Britannia Dr. S.W. Calgary, Alberta
William Gordon Brown	Lawyer	3018 - 10 Street S.W. Calgary, Alberta
C. Alan Smith	Executive	1137 Varsity Estates Rise N.W. Calgary, Alberta
William H. Molle	Executive	36 Ranchdale Crescent Don Mills, Ontario

5. The said first directors, subject to the provisions of the Articles of Association, shall hold office until the date on which the first annual meeting of the Amalgamated Company is held. The subsequent directors shall be elected in accordance with the provisions of the Articles of Association of the Amalgamated Company.

6. The names and offices to be held respectively by the principal officers of the Amalgamated Company until others are elected or appointed by the Board of Directors in their place, and their places of residence are as follows:

Name	Office Held	Residence
Robert J. Gowdy	President	4427 Britannia Dr. S.W. Calgary, Alberta
C. Alan Smith	Vice-President and Treasurer	1137 Varsity Estates Rise N.W. Calgary, Alberta
William Gordon Brown	Secretary	3018 - 10 Street S.W. Calgary, Alberta

7. The liability of the members of the Amalgamated Company will be limited to the amount, if any, unpaid on their shares.

8. Upon the amalgamation becoming effective, the authorized and issued capital of the Amalgamating Companies shall be and be deemed to have been converted into the authorized and issued capital of the Amalgamated Company in the following manner, namely:

(a) of the 5,380,895 issued and outstanding shares of Pinnacle the 1,948,222 shares owned by Paloma shall become void and of no effect and shall cease to represent ownership of any kind and the remaining 3,432,673 issued and outstanding shares of Pinnacle shall be converted into issued and outstanding shares of the Amalgamated Company on the basis of one share of the Amalgamated Company for each six and one-half such shares of Pinnacle; and

(b) the 100 issued and outstanding shares of Paloma shall be converted into issued and outstanding shares of the Amalgamated Company on the basis of 36,109.95 shares of the Amalgamated Company for each one such share of Paloma.

The unissued capital of Pinnacle and Paloma shall automatically and without any formalities or further acts, be converted into the unissued capital stock of the Amalgamated Company.

To the extent that the above conversion results in a shareholder of Pinnacle being entitled to a fractional interest in a share of the Amalgamated Company the Amalgamated Company shall in lieu of issuing a fractional certificate pay such shareholder for every ten-sixty fifths of a share to which he would otherwise be entitled a sum of cash equal to the average closing sale price per share of Pinnacle shares on The Toronto Stock Exchange during the five trading sessions immediately preceding the effective date of the amalgamation, to be paid by the Transfer Agent as agent on behalf of the Amalgamated Company, it being expressly understood and agreed that such payment shall be carried out as and by way of assistance in completing the exchange contemplated by this Agreement and not as a consideration separately bargained for by the shareholders.

9. Certificates for shares of the Amalgamated Company will be issued to Pinnacle and Paloma shareholders in accordance with Clause 8 hereof upon presentation of their certificates to Montreal Trust Company, Calgary, Alberta.

10. No action or proceedings by or against any of the Amalgamating Companies shall abate or be affected by the amalgamation, but for all purposes the name of the Amalgamated Company shall be substituted in such action or proceeding, if any, in the place of that party hereto affected by such proceedings.

11. The Directors of either party hereto, as the circumstances may require, shall have power to assent to such provision, if any, as may be made for a dissenting shareholder or creditor by the Court, and also may consent or enter into any alteration or modification of this agreement which the Court, pursuant to the provisions of The Companies Act, may think fit to direct or impose and the expression "Amalgamation Agreement" as used herein shall be read and construed to mean and include this agreement as so altered or modified.

12. This Agreement may be terminated by the Board of Directors of either party hereto without cause or reason, notwithstanding the approval of this agreement by the shareholders of the other of the Amalgamating Companies at any time prior to the issue of the Certificate of Amalgamation certifying that the parties hereto have amalgamated.

13. This Agreement shall become effective upon the issuance of a Certificate of Amalgamation by the Registrar of Companies under and pursuant to the provisions of The Companies Act, and the date of the issuance of such certificate shall be the effective date hereof.

14. The obligations of each party under this Agreement are subject to fulfillment prior to or at the effective date of each of the following conditions, except any of them which may be waived by the other in writing at or prior thereto, namely:

(i) Each party shall have duly performed and complied in all material respects with all things required by this Agreement to be performed or complied with by it at or prior to closing.

(ii) Each party shall have delivered to the other a written opinion of its solicitors, dated the effective date to the effect that:

(a) It is a corporation duly authorized, validly existing and in good standing under the laws of the Province of Alberta, with full corporate power and authority for the ownership and operating of its properties and rights and the conduct of its business as it is now conducted, and is duly qualified to do business as a foreign corporation in all jurisdictions where the character and location of its properties and rights or the nature of the business transacted by it makes such qualification necessary.

(b) It has the legal power and right to enter into and perform this Agreement and that the consummation of the transactions contemplated by this Agreement will not, to the knowledge of such solicitors, result in the breach or termination of any provision of or constitute a default under any contract, agreement, indenture, mortgage, or other instrument or agreement to which such company is a party or to which its property may be bound and such solicitors may rely upon a certificate of the President and Secretary thereof in giving their opinion relating to matters included in this subclause (b).

(c) It has taken all necessary corporate proceedings including appropriate approval by shareholders, to authorize this Agreement and the amalgamation contemplated hereby, the performance of its obligations hereunder and the execution and delivery by it of all instruments contemplated hereby and this Agreement is valid and binding upon such company in accordance with its terms.

(d) Such solicitors know of no impediment, legal or corporate, to the conclusion of amalgamation contemplated by this Agreement and covering such other matters incident to the transaction contemplated hereby.

In rendering such opinions, such solicitors may rely on opinions of other counsel satisfactory to them with respect to all matters of United States law and the laws of the Provinces of Canada except Alberta.

(iii) All legal matters in connection with this Agreement and the consummation of the amalgamation contemplated hereby and all legal opinions required by this Agreement to be submitted shall have been approved by counsel for the party receiving such opinions and there shall have been furnished to such counsel certified copies of such corporate or other records and such information as they may reasonably request for such purposes.

(iv) There shall have been no material loss, damage or destruction of or to either party's properties not adequately covered by insurance.

(v) Each party shall have received the consent of any governmental agency, securities commission or stock exchange as required, in order to fully effect the amalgamation and maintain the listing of the shares of the Amalgamated Company on the stock exchanges where the shares of Pinnacle are presently listed.

15. Paloma acknowledges that at the meeting of shareholders of Pinnacle to be held for the purpose, among others, of considering the proposed amalgamation of Pinnacle and Paloma, the shareholders of Pinnacle, prior to their consideration of the proposed amalgamation, will be asked to consider and, if thought fit, adopt as a special resolution a resolution reducing the paid up capital of Pinnacle in the amount of \$5,774,799 to \$1,827,920 by applying \$3,946,879 of the paid up capital of Pinnacle in elimination of the deficit of Pinnacle in the amount of \$3,946,879 as set forth in the audited balance sheet of Pinnacle as at March 31, 1974. It is understood and agreed that the proposed amalgamation between Paloma and Pinnacle is not dependent upon the aforesaid proposed reduction in capital being effected and should such proposed reduction in capital not be approved by the shareholders of Pinnacle or the Supreme Court of Alberta the proposed amalgamation between Paloma and Pinnacle shall be proceeded with in accordance with the terms and provisions of this Agreement.

16. The addresses of the parties hereto for notices and communications shall be:

Pinnacle Petroleums Ltd.
1470 Bow Valley Square One
202 - 6th Avenue S.W.
Calgary, Alberta
T2P 2R9

Paloma Petroleum Ltd.
2301 Sun Oil Building
500 - 4th Avenue S.W.
Calgary, Alberta

Any notice mailed or delivered under the terms hereof shall be deemed to have been received on the second business day (if mailed) and on the date of delivery (if delivered).

SIGNED, SEALED AND DELIVERED

PINNACLE PETROLEUMS LTD.

Per: C. Alan Smith, President (Signed)

Per: William Gordon Brown, Secretary (Signed)

PALOMA PETROLEUM LTD.

Per: Robert J. Gowdy, President (Signed)

Per: Carole M. Gowdy, Secretary (Signed)

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PINNACLE PETROLEUMS LTD.

FINAL REPORT TO THE SHAREHOLDERS

PRIOR TO THE AMALGAMATION WITH

PALOMA PETROLEUM LTD.

SEPTEMBER 30, 1974

To The Shareholders:

On October 1, 1974, the amalgamation of Pinnacle Petroleums Ltd. with Paloma Petroleum Ltd. became effective. This amalgamation was approved by the Shareholders of Pinnacle at the Annual and Special General Meeting of Shareholders on September 4, 1974.

At the present time significant progress has been made to integrate the administrative functions. Work in this important aspect of the amalgamation will be completed in the near future. Shares in the continuing company, Paloma Petroleum Ltd., were called for trading on The Toronto Stock Exchange on October 1, 1974.

The purpose of this report is to provide complete financial information of Pinnacle Petroleums Ltd. at the time that the accounts were closed to amalgamate with Paloma Petroleum Ltd. In this regard the financial statements of Pinnacle Petroleums Ltd. as at September 30, 1974 are included in this report. These financial statements do not include the accounts of Paloma Petroleum Ltd. prior to the amalgamation. In addition, the purpose is to inform the shareholders of Paloma Petroleum Ltd. of the intended operations of the amalgamated company. It is the intention of the management of Paloma to establish the calendar year as the fiscal reporting period of the amalgamated company; consequently, Paloma will in due course be providing shareholders with a report of the first three months of operation of the amalgamated company as at December 31, 1974.

On December 12, 1974, Premier Lougheed of Alberta unveiled the Alberta Petroleum Exploration Plan, which is designed to offset the negative effects of the Federal Budget measures announced by Finance Minister Turner on November 18, 1974. The impact of the Federal Budget provisions on Paloma were severe. Fortunately, the provisions of the Alberta Petroleum Exploration Plan appear to moderate these negative effects very significantly. It is the fervent hope of Paloma management that the steps taken by Premier Lougheed form the basis for continued discussion between the Federal and all provincial levels of government which will result in a satisfactory resolution to the impasse that had developed over taxation of the natural resource industries.

EXPLORATION

The philosophy of the management of Paloma Petroleum Ltd. is to expose the amalgamated company on a broad basis by participation in numerous exploratory prospects, but to a limited extent in each prospect through the involvement of joint venture participants. In doing so your management believes that exploration risks can be minimized and yet a substantial increase in the net worth of the amalgamated company can result should the amalgamated company participate in a significant discovery.

The main thrust of the amalgamated company's exploratory efforts continues to be in the Province of Alberta. At the present time plans are being formulated for participation in the drilling of at least eight wildcat wells in Alberta. Some of these wells will be to explore existing amalgamated company acreage and the balance will be farmouts from other resource companies. The Peace River region of northwestern Alberta continues to be our largest single region of interest in Alberta and the amalgamated company is committed under the terms of an exploration agreement to participate in five wells in this area. Currently plans are being finalized to participate in wells to be drilled on amalgamated company acreage in the Hays, Long Coulee and Chedderville areas.

Through Paloma Petroleum, Inc., a wholly owned subsidiary, the amalgamated company intends to continue its thrust into the United States. The subsidiary currently holds a 50% interest in approximately 100,000 acres of prospective acreage in the Arkoma Basin, Arkansas and is presently negotiating an agreement whereby a major oil producer in the United States would explore the acreage to earn an interest in the lands. The acreage is east of and on trend with the Kinta, Red Oak, Aetna, Wilburton and other natural gas fields all of which contain sizeable reserves. In addition to this program, the subsidiary has signed agreements committing to participation in two other large land assembly programs in the United States, one in Oklahoma and one in Louisiana.

PRODUCTION

Pinnacle's crude oil production for the six month period was lower than the corresponding period for 1973 due for the most part to increased government royalties, particularly in the Province of Saskatchewan. Fortunately the selling price of crude oil improved during the period, providing a 17% increase in production revenues for the six month period over those of the corresponding period in 1973.

Sales of crude oil after crown and freehold royalties, mineral income taxes and royalty surcharges averaged 175 barrels per day during the six month period. Approximately 68% of this production was produced in the Province of Alberta and 32% was produced in the Province of Saskatchewan. By way of its mineral income tax and its crown royalty surcharge, the Province of Saskatchewan reduced Pinnacle's average crude oil production by 41 barrels per day.

During the six months ended September 30, 1974 Pinnacle and Paloma combined, produced a daily average of 233 barrels of crude oil, condensate and natural gas liquids and 4,060 MCF of natural gas after deduction of crown royalties, mineral income taxes and royalty surcharges. With the installation of compression in the Dunvegan field in mid-October, future natural gas deliveries are expected to increase.

FINANCIAL

Pinnacle was in a strong working capital position at September 30, 1974, which will benefit the amalgamated company greatly in its projected exploration activity. Cash flow from operations during the six month period was less than that of the corresponding period in 1973 due in part to increased operating costs caused by the pressures of inflation, but due for the most part to increased administrative expenses arising from the reorganization of Pinnacle's affairs. Many of these increased costs were of a "one time" nature and will not have a continuing effect on the future of the amalgamated company, Paloma Petroleum Ltd.

PALOMA PETROLEUM LTD.



R. J. GOWDY,
President

January 15, 1975



Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Pinnacle Petroleum Ltd. and subsidiary companies as at September 30, 1974 and the consolidated statements of earnings, deficit and changes in financial position for the six months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1974 and the results of their operations and the changes in their financial position for the six months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
January 6, 1975.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

**Consolidated Balance Sheet** (Note 6)

September 30, 1974

(with unaudited comparative figures at September 30, 1973)

ASSETS

	<u>1974</u>	<u>1973</u>
CURRENT ASSETS:		
Cash and term deposits	\$ 493,078	449,160
Accounts receivable	70,004	56,862
Note receivable	—	181,112
Prepaid expenses	786	938
Total current assets	<u>563,868</u>	<u>688,072</u>
PROPERTY AND EQUIPMENT, LESS DEPLETION AND DEPRECIATION (Note 1):		
Petroleum and natural gas properties	1,836,452	1,524,612
Less accumulated depletion	<u>845,711</u>	<u>751,920</u>
	<u>990,741</u>	<u>772,692</u>
Production and other equipment	457,816	416,844
Less accumulated depreciation	<u>322,641</u>	<u>295,562</u>
	<u>135,175</u>	<u>121,282</u>
Mining properties	<u>157,915</u>	<u>107,451</u>
Net property and equipment	<u>1,283,831</u>	<u>1,001,425</u>
OTHER ASSETS:		
Deferred accounts receivable	27,655	27,555
Drilling and other deposits, at cost less amounts written off	42,756	42,756
Drilling rig held for sale — at cost less accumulated depreciation of \$44,952 (1973 — \$41,039)	9,215	13,128
Incorporation costs	6,628	6,073
	<u>\$1,933,953</u>	<u>1,779,009</u>

See accompanying notes.

LIABILITIES

	<u>1974</u>	<u>1973</u>
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 68,760	66,888
Total current liabilities	68,760	66,888
DEFERRED INCOME	11,001	10,351
MINORITY INTEREST IN A SUBSIDIARY	40,000	—
SHAREHOLDERS' EQUITY:		
Share capital (Note 2):		
Authorized 7,000,000 shares without nominal or par value		
Issued 5,380,895 shares	1,827,920	5,774,799
Deficit	13,728	4,073,029
	<u>1,814,192</u>	<u>1,701,770</u>

On behalf of the Board:



Director



Director

\$1,933,953

1,779,009



Consolidated Statement of Earnings

Six Months ended September 30, 1974
(with unaudited comparative figures for 1973)

	<u>1974</u>	<u>1973</u>
REVENUES:		
Crude oil and gas sales and royalties	\$ 210,404	179,216
Interest and other income	<u>23,814</u>	<u>17,373</u>
	234,218	196,589
EXPENSES:		
Operating	66,687	58,049
General and administrative	<u>108,718</u>	<u>73,218</u>
	<u>175,405</u>	<u>131,267</u>
CASH FLOW FROM OPERATIONS	58,813	65,322
DEDUCT:		
Depreciation	15,550	16,240
Depletion	56,656	26,864
Other	<u>335</u>	<u>—</u>
	<u>72,541</u>	<u>43,104</u>
Net earnings (loss) before extraordinary item	(13,728)	22,218
EXTRAORDINARY ITEM:		
Gain on sale of production equipment	<u>—</u>	<u>9,901</u>
Net earnings (loss)	<u>\$ (13,728)</u>	<u>32,119</u>
EARNINGS PER SHARE:		
Earnings before extraordinary item	\$.00	.01
Net earnings	\$.00	.01

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Six Months ended September 30, 1974

(with unaudited comparative figures for 1973)

	<u>1974</u>	<u>1973</u>
SOURCE OF FUNDS:		
Cash flow from operations	\$ 58,813	65,322
Net proceeds from sale properties and equipment . . .	3,354	14,513
Decrease in note receivable — net of deferred interest income	—	181,112
Sundry	217	(468)
Total funds provided	<u>62,384</u>	<u>260,479</u>
 APPLICATION OF FUNDS:		
Purchase of property and equipment	47,488	99,574
Increase in working capital	14,896	160,905
Working capital, at beginning of period	480,212	460,279
Working capital, at end of period	<u>\$ 495,108</u>	<u>621,184</u>

Consolidated Statement of Deficit

Six Months ended September 30, 1974

(with unaudited comparative figures for 1973)

	<u>1974</u>	<u>1973</u>
Balance, at beginning of period	\$ 3,946,879	4,105,148
Deduct paid up capital applied in elimination of deficit (Note 2)	3,946,879	—
	—	4,105,148
Net loss (earnings) for period	13,728	(32,119)
Balance, at end of period	<u>\$ 13,728</u>	<u>4,073,029</u>

See accompanying notes.



Notes to Consolidated Financial Statements

September 30, 1974

1. Accounting principles:

The consolidated financial statements include the accounts of Pinnacle Petroleum Ltd. and its wholly-owned subsidiary companies, Baldonnel Oil & Gas Ltd., Grizzly Petroleum Limited, Grizzly Exploration (U.K.) Ltd., Grenville Petroleum Corporation and Grenville Exploration Ltd., a 60% owned subsidiary. All of the expenditures of Grenville Exploration Ltd. to date have been related to pre-production and such have been capitalized in the accounts. These amounts are included in the accompanying consolidated financial statements under the caption "Mining properties."

The excess of the purchase price of the shares of the subsidiaries over their underlying net book values at dates of acquisition amounting to \$2,567,698 has, on consolidation, been added to petroleum and natural gas properties and is being depleted accordingly.

The companies follow the "full cost" method of accounting wherein all costs and expenses of exploring for and developing oil and natural gas reserves in Canada are capitalized and depleted over the estimated lives of the properties on a composite unit of production basis. In 1970 the company wrote down the carrying value of its petroleum and natural gas properties by \$1,960,000. All other property and equipment are carried at cost.

Lease and well equipment and other assets are being depreciated over their estimated useful lives.

2. Share capital:

In 1972 the company granted to an officer an option to purchase up to 25,000 shares in the capital of the company at \$0.67 per share. The option is exercisable 5,000 shares per annum on a cumulative basis, commencing April 7, 1972 and expiring on April 7, 1976. No portion of this option has been exercised to date.

Pursuant to a special resolution of the shareholders, confirmed by the Supreme Court of the Province of Alberta on September 5, 1974 the paid up capital was reduced in the amount of \$3,946,879, which was applied in elimination of the deficit as at March 31, 1974.

3. Income taxes:

For income tax purposes the companies are entitled to claim drilling exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in the amounts which may exceed the related depletion and depreciation reflected in the accounts. At September 30, 1974 the following amounts remain to be carried forward and applied against future taxable incomes to the maximum amounts permitted annually under the Income Tax Act:

Drilling, exploration and lease acquisition costs		\$1,551,400
Undepreciated capital cost		\$ 185,136

4. Remuneration:

The aggregate remuneration paid to senior officers during the six months ended September 30, 1974 was \$43,407. No remuneration was paid to directors as such.

5. Earnings per share:

The earnings per share amounts are calculated using the weighted average number of shares outstanding during each of the respective periods.

6. Subsequent events:

Pursuant to a special resolution of the shareholders confirmed by the Supreme Court of the Province of Alberta on September 5, 1974, the shareholders of the company approved the amalgamation agreement with Paloma Petroleum Ltd. (an Alberta private company) dated July 26, 1974. Each shareholder of the company (other than Paloma Petroleum Ltd.) received one share in the capital stock of the amalgamated company for every six and one-half shares held prior to amalgamation and each shareholder of Paloma received 36,109.95 shares in the capital stock of the amalgamated company for each share held prior to amalgamation. The amalgamation was confirmed by Certificate of the Registrar of Companies, Province of Alberta on October 1, 1974. Accordingly the accompanying consolidated financial statements include the accounts of the company and its subsidiaries prior to date of amalgamation, October 1, 1974.

